Legislative Audit Division

State of Montana

Report to the Legislature

November 2002

Performance Audit

Children's Health Insurance Plan (CHIP)

Department of Public Health and Human Services
Health Policy and Se rvices Division

This report contains information on the Children's Health Insurance Plan (CHIP). Our review of the department's management of CHIP shows the program is administered in an efficient manner and program operations comply with related federal and state requirements. Our review identified three areas for improvement:

- **Estimating applicant's annual family income and documenting eligibility decisions.**
- **Administering the CHIP waiting list.**
- **Updating the current application form.**

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PERFORMANCE AUDITS

Performance audits conducted by the Legislative Audit Division are designed to assess state government operations. From the audit work, a determination is made as to whether agencies and programs are accomplishing their purposes, and whether they can do so with greater efficiency and economy. The audit work is conducted in accordance with audit standards set forth by the United States General Accounting Office.

Members of the performance audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business and public administration, statistics, economics, political science, logistics, computer science, and engineering.

Performance audits are performed at the request of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

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November 2002

The Legislative Audit Committee
of the Montana State Legislature:

This is our performance audit report of Montana's Children's Health Insurance Plan (CHIP). The CHIP program is designed to provide health insurance to uninsured children from low-income families. The Department of Public Health and Human Services is responsible for administering this program.

This report provides information to the legislature regarding department implementation and operation of the CHIP program. It contains conclusions reached during audit review of various aspects of department management and operation of CHIP. We found overall program operations to be efficiently administered. We did identify several areas where program operations could be improved and make specific recommendations in the areas of determining applicant eligibility, administering the waiting list for health insurance coverage, and updating program application forms.

We appreciate the cooperation and assistance of department management and staff during the audit.

Respectfully submitted,

(Signature on File)

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Legislative Audit Division

Performance Audit

Children's Health Insurance Plan (CHIP)

Department of Public Health and Human Services
Health Policy and Services Division

Members of the audit staff involved in this audit were Lisa Blanford, Angus Maciver, and Jim Nelson.

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Introduction

The Legislative Audit Committee requested a performance audit of the Children's Health Insurance Plan, commonly known as CHIP. CHIP is a relatively new federal and state program designed to provide health insurance to children from low-income families. The Montana legislature passed enabling legislation in 1999. The Health Policy and Services Division within Department of Public health and Human Services (DPHHS) administers the program.

CHIP Program Overview

Congress created the State Children's Health Insurance Program in August 1997. The program was designed to expand health insurance coverage to children from working families with incomes too high to qualify for Medicaid, but too low to afford private insurance. Congress appropriated over $40 billion in federal funds over a ten-year period for states to provide new health coverage for children. Individual state programs are funded with a combined federal – state match. States receive an enhanced federal match that exceeds their federal Medicaid match rate. Montana's federal share for CHIP is 81 percent and is among the highest in the nation. It requires a corresponding state match of 19 percent.

DPHHS began Montana's CHIP program as a pilot program in December 1998 with an interdepartmental transfer of $210,000 from the State Commissioner of Insurance. This allowed 940 children to be enrolled in the program. In 1999, the Legislature appropriated $8 million General Fund over the biennium for CHIP matching grants. The appropriation allowed the department to obtain access to a larger portion of the federal allotment for the state. Montana's CHIP program was fully operational in fiscal year 2001 when maximum program enrollment was attained and 9,700 children were enrolled in the program. Enrollment in Montana's CHIP program is limited by state funding constraints.

In order to be eligible for CHIP, a child must be under 19 years old, a Montana resident, US citizen or qualified alien, not currently insured, ineligible for Medicaid, and ineligible for coverage under Montana's state employee benefit plan. In addition, a family's annual countable income must be less than 150 percent of the federal

poverty level. There are no asset limits for CHIP eligibility, which is a key difference from eligibility requirements for Medicaid. Children who meet program requirements are eligible to receive 12 months of coverage. Key health benefits available to CHIP enrolled children include: hospitalization, in-patient services, outpatient services, physician exams, well-child care, prescription drugs, x-ray services, laboratory tests, vision exams, and mental health services. DPHHS expanded this basic care plan by adding limited provisions for dental care and eyeglasses. There are no enrollment fees or premium cost sharing required for participation in CHIP. However, families are required to submit a co-payment for some services.

CHIP Program Well Managed

Two of the objectives of this audit were to evaluate efficiency of overall management of Montana's CHIP program and assess compliance with federal and state regulations. Overall, we found the CHIP program is administered in an efficient manner and key areas of the operation are well organized. Audit testing revealed program operations generally comply with related federal and state requirements. We found program management is responsive to recognizing system inefficiencies or bottlenecks and correcting them. The program is run in a pro-active manner and management and staff search for better ways to do things.

During the audit, we performed specific testing and review of CHIP program operations. The majority of program areas and functions examined operate as intended. We reached the following conclusions regarding program operations.

- The department developed a workflow process that ensures CHIP applications are processed in a timely manner and workload is actively managed and monitored.
- Eligibility decisions generally comply with federal and state CHIP program requirements.
- The computer system used to assist with screening applicant eligibility (TESS) functions as intended and has safeguards in place to prevent unauthorized access. Data contained on the system accurately reflects information provided on applications and supporting documents.

- CHIP eligibility is re-certified every 12 months for each enrolled member as required by federal and state standards. The department has an effective and efficient re-certification process in place.

- Department staff administers the CHIP waiting list in a fair and equitable manner.

- The department established procedures and controls that ensure only children who meet eligibility criteria during enrollment and re-enrollment receive CHIP sponsored health insurance and those who are determined at this time to be ineligible lose coverage.

- The department developed a process for ensuring applicants ineligible for CHIP are referred to other children's health care programs.

- The CHIP program is operated with a low ratio of spending on administrative expenses and insurance premiums are reasonable when compared to other states.

Improving Program Operations

Our review identified three areas where the department could improve administration and operation of the CHIP program.

1. Improve the process of estimating CHIP applicant's annual family income by expanding policy, providing on-going staff training, and implementing a quality control process. Eligibility decisions could be better documented by modifying the database to make the notes section a compulsory field.

2. Refine the system used by department management to override the automated waiting list function by expanding policy to include specific guidance and developing a process to fully document any overrides performed by department management.

3. Streamline the application process by relying solely on the department's universal application and eliminating continued use of the CHIP-only application.

Areas for Legislative Consideration

One of the objectives of the performance audit was to provide the Legislature with information specific to funding and programmatic issues that impact or could impact the CHIP program. We reviewed how the funding mechanism works for allocating federal CHIP funds

to states. We examined Montana's use of federal matching grants to determine if the state is leveraging federal matching grants to the greatest extent possible. We also gathered information regarding funding reductions and impacts to the CHIP program for the 2003 Biennium.

CHIP Federal Matching Grants

Congress appropriated more than $40 billion over a ten-year period in order to fund states' CHIP programs. Annual federal allotments are made available to states each year from the beginning of the program in 1998 through 2007. States have a three-year window to expend, or draw down, their annual federal allotment. For example, states had until September 2000 to spend federal allotments granted in October 1997. Unexpended amounts revert to the federal government and are redistributed to other states. CHIP is funded from a federal block grant that requires a state match. For the 2003 Biennium, Montana's CHIP state matching rate is approximately 19 percent.

Montana is not currently using its entire federal allocation because it would take additional state matching funds. As a result, parts of the federal funds allocated to Montana were not used and were permanently reverted to the federal government. The state reverted unspent federal CHIP grants from 1998, 1999, and 2000. Portions of 1998 and 1999 reverted allocations were re-allocated to the state; however, over $4.6 million was permanently reverted. The current pattern of not using all federal funds is resulting in an accumulation of unspent federal matching funds. When the Legislature convenes in 2003, federal grants for 2001, 2002, and 2003 will be available to the state. For this three-year grant period, over $27.9 million in federal CHIP grants will be available for use during the 2005 biennium. Estimates show it would take $6.5 million of state funding to fully utilize the federal funds available to Montana from 2001, 2002, and 2003 grants. In addition, federal grants for 2004 and 2005 will be available to the state beginning October 2003 and October 2004 respectively. The amount of these federal grants is unknown at this time.

Expenditure and Funding Reductions

Actions taken to control spending and avoid a supplemental appropriation had a significant impact on CHIP. According to department management, General Fund allocations were reduced by approximately $220,000 in each year of the current biennium. Since CHIP utilizes state and federal fund matches, General Fund reductions result in decreased use of federal matching funds. Thus, additional federal matching grants will be reverted. Using the current matching rate of 19 percent state and 81 percent federal, it is estimated the corresponding reduction in use of federal funds is $937,900 for each year of the current biennium.

Steps taken by the department to implement the reduction in funding included reducing the maximum number of children that can be enrolled in the insurance program from 9,700 to 9,350. In addition, effective July 1, 2002, the department eliminated mental health services available to children enrolled in CHIP through the Mental Health Services Plan (MHSP). Children enrolled in CHIP will continue to receive mental health benefits up to the benefit maximums allowed under CHIP. Services beyond those limits will no longer be available via MHSP. The department also elected to not renew contracts for the outreach program. Due to the limits placed on the number of children DPHHS is able to enroll in the program, and the existence of a waiting list, management believed it was not fair to advertise the program and generate more applications.

Chapter I – Introduction

Introduction

The Legislative Audit Committee requested a performance audit of the Children's Health Insurance Plan, commonly known as CHIP. CHIP is a relatively new federal and state program designed to provide health insurance to children from low-income families. The Montana legislature passed enabling legislation in 1999. The Health Policy and Services Division within Department of Public Health and Human Services (DPHHS) administers the program.

Initial legislative interest centered on the fact the health insurance program was not fully utilized. This situation no longer exists as demand for the program exceeds available funds. CHIP enrollment has been at maximum capacity since January 2001. As a result, children eligible for the program are placed on a waiting list until a vacancy occurs and they can be enrolled in the insurance plan.

Audit Objectives

We established the following overall audit objectives:

1. Evaluate the efficiency of overall management of CHIP program operations.
2. Assess compliance with federal and state CHIP program requirements.
3. Provide the Legislature with information specific to funding and programmatic issues that impact, or could impact, the CHIP program.
4. Gather information related to other programs that provide children with health insurance or health care and examine current CHIP insurance premiums.

We discuss our findings related to these objectives in chapters II, III and IV.

Audit Scope and Methodologies

Primary audit focus was on procedural and compliance areas associated with administering and managing the CHIP program. Key procedural areas included: processing applications, determining eligibility, enrolling eligible children in the insurance plan, administering the waiting list, handling annual client re-certification,

and routing of clients (and applications) between CHIP and other children's health care and health insurance related programs. Audit scope for this portion of the audit focused on calendar year 2002 operations.

During the audit, we examined efficiency of the department's application workflow for processing both new applications and applications to continue enrollment. Audit testing was designed to determine if:

- ✓ Federal and state CHIP regulatory requirements were adhered to.
- ✓ Applications were processed in a timely manner.
- ✓ Eligibility decisions were accurate and adhered to program eligibility requirements.
- ✓ Children found eligible for CHIP were placed on the waiting list.
- ✓ The CHIP waiting list was administered in a fair and equitable manner.
- ✓ Decisions to terminate a child's CHIP coverage were correct and justified.

We identified program criteria by reviewing federal and state laws, regulations, rules, the State CHIP Plan submitted to the federal government, and department policy. Using these criteria, we reviewed a random sample of applications, supporting documents, and applicant/enrollee files in order to assess program efficiency and compliance. We included both eligible and ineligible applications in our sample. In addition, we supplemented our file review by:

- ✓ Conducting a workflow analysis by independently tracking all incoming applications and related documents for a test period.
- ✓ Reviewing and testing key procedural controls used by the department, especially those related to the enrollment and discontinuation functions.
- ✓ Examining reliability and security of the computer system used to assist with CHIP eligibility screening.

- ✓ Analyzing documents to identify processing timeframes.
- ✓ Examining month-end reconciliation duties performed by department staff.
- ✓ Monitoring the CHIP waiting list during the time the audit was conducted.

We compiled funding and expenditure information for Montana's CHIP program from its inception in 1998 through September 2002. We gathered federal grant allocation data including annual allocation amounts for Montana, unused and reverted federal grants, and re-allocated federal grant amounts. We included information on leveraging federal grant dollars and future changes to federal allocations for states' CHIP programs. We also gathered information related to agency reductions adopted by the department, reductions in funding allocations mandated by the Legislature, and examined impacts of funding reductions on the program.

We obtained information regarding various alternatives being pursued by several public and private sector groups that either potentially change the scope of services offered through CHIP or impact the program in other ways. These are proposals arising as various groups pursue improving access to health care in Montana. This includes proposals by the Interim Subcommittee on Health Care and Health Insurance, the State Commissioner of Insurance, Montana Comprehensive Health Association (MCHA), and a citizen's initiative ballot proposal. We reviewed documents and related testimony provided at legislative committee meetings. We gathered and examined studies related to access to health care and a funding study related to the MCHA plan. We also obtained and reviewed documents related to the citizen's initiative to re-direct tobacco settlement funds towards health care and insurance programs.

We compiled summary information related to children's health care and health insurance programs. We gathered and reviewed

information specific to the CHIP health insurance premium including actuarial studies and insurance provider reports.

Compliance

During the audit, we reviewed federal laws and regulations, state statutes and administrative rules, and department policies governing the operation of the CHIP program. We also reviewed the State CHIP Plan that was submitted to the federal government. We assessed compliance with federal and state regulations governing state CHIP programs. This included compliance with laws, rules, policies, and the State CHIP Plan.

Audit testing revealed overall the department complies with federal and state laws and regulations for CHIP programs. However, we did identify an area where department compliance could be improved. This area relates to calculating CHIP applicants' annual income as part of eligibility screening and is discussed in Chapter III.

Report Organization

The remainder of this report is organized as follows:

- Chapter II – CHIP Program Overview. Provides information related to current CHIP operations.
- Chapter III – CHIP Program Operations. Responds to audit objectives 1 and 2: Evaluate efficiency of overall management of CHIP program operations and compliance with federal and state laws and regulations. This chapter includes three recommendations for improvement.
- Chapter IV – Areas for Legislative Consideration. Responds to audit objective 3: Provide the Legislature with information specific to funding and programmatic issues that impact, or could impact, the CHIP program.

Chapter II - CHIP Program Overview

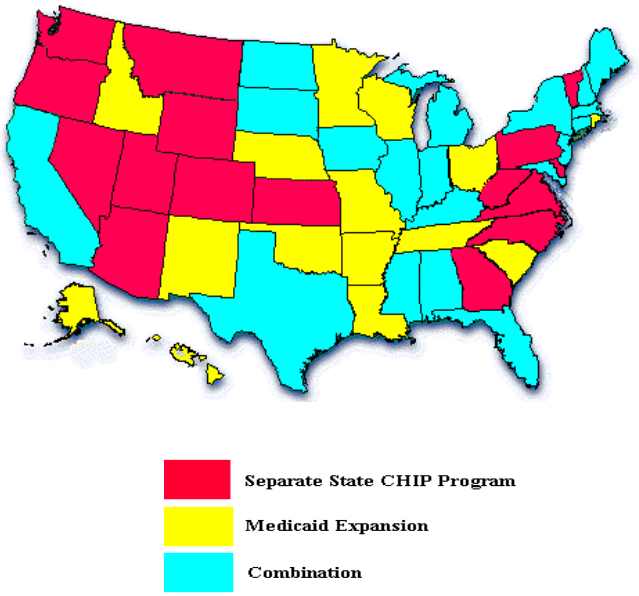
CHIP History

Congress created the State Children's Health Insurance Program (CHIP) in August 1997 by enacting Title XXI of the Social Security Act. The program was designed to expand health insurance coverage for low-income uninsured children. The State Children's Health Insurance Program is the largest single extension of health insurance coverage for children since the creation and expansion of Medicaid in the mid-1960s. It was designed to expand coverage to children from working families with incomes too high to qualify for Medicaid, but too low to afford private insurance.

Congress appropriated over $40 billion in federal funds over a ten-year period for states to provide new health coverage for children. Each state must prepare a CHIP State Plan in order to obtain federal funds and must use state funds to match federal dollars. By December of 1999, all 50 states developed CHIP plans and all have been approved by the Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration (HCFA). CHIP legislation gave states the option of establishing a separate state program, expanding their Medicaid program, or using a combination of the two to administer the program. Montana opted for a separate state program. The following figure shows 16 states opted for separate state programs, 15 states opted for Medicaid expansion programs and 19 states chose combination programs.

Figure 1

Type of CHIP Program Developed by States
Calendar Year 2002



Source: Centers for Medicare and Medicaid Services (CMS).

There are key differences between the options states elect as the means of administering their program. States that operate a separate CHIP program have more flexibility in designing their program. These states are allowed to choose the benefits package from among five basic options (benchmark plans). They can charge premiums, implement waiting periods, and impose enrollment caps. In contrast, states that choose to expand Medicaid must follow all Medicaid rules for CHIP portions of the program: CHIP enrollees must be offered the same benefits package as Medicaid enrollees including full dental benefits; states must follow quality assurance mechanisms required by the state's Medicaid program; and, states must abide by Medicaid recipient cost-sharing rules for premiums, deductibles, and co-payments. If states choose the Medicaid expansion option, their CHIP program becomes an entitlement program, which means all eligible applicants must be served. States that choose a separate

CHIP program can limit the number of applicants that are served depending on funding availability. CHIP is not an entitlement under separate state programs.

Federal Funding Framework

Specific federal allocations to states are based upon: 1) the number of uninsured, low-income children living in each state, and 2) a geographic adjustment factor. Under CHIP, states receive an enhanced federal matching rate that exceeds their federal Medicaid match rate. The federal match for CHIP is capped at 85 percent. Federal shares of CHIP expenditures range from 65 percent to 84 percent, with the national average federal share about 72 percent. Montana's federal share is 81 percent and is among the highest in the nation. In federal fiscal year 2002, only four states received higher federal matching rates. The following table shows the federal fund allotment for Montana.

Table 1

Federal CHIP Allotment for Montana
Federal Fiscal Years 1998-2002
(In Millions)

FFY 1998	FFY 1999	FFY 2000	FFY 2001	FFY 2002
$11.74	$11.68	$13.17	$15.17	$10.93

Source: Compiled by the Legislative Audit Division from Centers for Medicare and Medicaid Services records.

After the initial influx of federal funds, federal participation in states CHIP funding will decrease for three years. Since October 1, 2001 (FFY 2002), states experienced an average of a 26 percent reduction in federal funding for CHIP (referred to as the "chip dip"). This decrease was scheduled in the enabling legislation. Federal participation is scheduled to increase again in FFY 2005.

States are allowed a three-year period to spend federal CHIP allocations appropriated for each year, meaning that states had to spend their FFY 1998 allotment by Sept. 30, 2000, and their FFY 1999 allotment by Sept. 30, 2001. In December 2000, Congress passed an act (Benefits Improvement and Protection Act) that provided states a two-year extension to use unspent federal funds from FFY 1998 and one-year extension for FFY 1999. States that have not spent their FFY 1998 and 1999 allotments could do so through Sept. 30, 2002. Unspent CHIP allotments are redistributed from states that do not fully spend them to states that fully expended their initial allotments.

Federal law requires states to contribute matching funds. The majority of states use General Fund for their share of the CHIP match. Eighteen states supplement their General Fund appropriations with money from other sources, including tobacco settlement funds, county and local contributions, cigarette and other tobacco taxes, grants, private donations, and existing state agency funds.

The full federal matching rate is available for primary expenditures for child health assistance. However, federal law limits the amount of federal matching funds available for states' administrative costs to ten percent of total program expenditures. Administrative expenditures exceeding the ten percent cap would have to be funded entirely by the state. The federal funding limit applies to general program administration, outreach activities, public health initiatives, and direct purchase of services to provide child health assistance.

Federally Mandated Requirements

CHIP is designed to give uninsured children access to health insurance. The program targets children from families who do not qualify for Medicaid because family income or assets are over Medicaid limits. Financial eligibility for CHIP is based on a family's adjusted gross income and number of persons living in the household; assets are not included as a condition of eligibility. There are no limitations for pre-existing medical conditions.

Federal requirements fall into three general areas:

- **Eligibility:** Federal legislation states families with income equal to or less than 200 percent of the federal poverty level are the target population. States may set lower family income limits. States can also establish income limits higher than 200 percent of the federal poverty level through program waivers. Other key eligibility requirements are children must be: under age 19, uninsured, ineligible for Medicaid, ineligible for inclusion under a state health benefits plan offered to public agency employees, and not an inmate or patient in a state institution or facility.

- **Benefits:** States must adopt a benefit package that meets minimum federal standards or a CHIP "benchmark." Under a separate state plan, benchmark plans must be one of five options: federal employee health benefits plan; state employee health benefits plan; a HMO plan that covers the largest number of commercial, non-Medicaid clients; an actuarial equivalent of one of the prior plans; or, a Secretary of Health and Human Services approved benefit plan.

- **Premiums and Cost Sharing:** Under a separate state plan, states can impose nominal cost sharing amounts based on family income at or below 150 percent of federal poverty guidelines. For families with higher incomes, states can impose cost sharing on a sliding fee scale, not to exceed 5 percent of annual family income. Total out of pocket costs (premiums, co-payments, deductibles, enrollment fees) for children covered in separate CHIP programs cannot exceed five percent of family income.

The majority of states use some type of managed care arrangement. States enroll children into managed care organizations and pay a monthly per enrollee fee for services. In exchange for a monthly premium, the contracted insurance provider allows CHIP enrollees access to a network of participating health care providers, provides claims processing and payment services, performs utilization review and managed care, and maintains records.

Montana's CHIP Program

Montana submitted its State CHIP plan to CMS in April 1998 and received approval in September 1998. DPHHS began Montana's CHIP program as a pilot program in December 1998 with an interdepartmental transfer of $210,000 from the State Commissioner of Insurance. This allowed 940 children to be enrolled in the

program. In 1999, the department asked the Legislature to appropriate General Fund match to allow the state to draw down its full federal CHIP allotment. Senate Bill 81 (Chapter 571) was approved by the 1999 Legislature and formally created the program. The 1999 Legislature appropriated $8 million General Fund over the biennium for CHIP matching grants. Enabling legislation for Montana's CHIP program specifies tobacco settlement funds are deposited into the state General Fund and appropriates tobacco settlement proceeds to fund the program. This General Fund appropriation covers the state share of CHIP program expenditures, while the bulk of expenditures are federally funded. The following table provides program FTE, expenditure and funding information for state fiscal years 2000, 2001, and 2002.

Table 2

CHIP Program Authorized FTE, Expenditures, and Fund Sources
Fiscal Years 2000 through 2002

	FY 2000	FY 2001	FY 2002
Authorized FTE	4.54	10.54	9.54
Expenditures			
Personal Services	$ 243,517	$ 443,333	$ 489,730
Operating Expenses	$ 148,124	$ 465,019	$ 420,526
Equipment	$ 36,836	$ 0	$ 0
Social Assistance	$3,498,310	$12,180,619	$13,547,660
Total	$3,926,787	$13,088,971	$14,457,916
Fund Source			
General Fund	$ 668,563	$ 2,598,246	$ 2,811,194
CHIP Program Federal	$3,122,073	$10,490,725	$11,646,722
State Special (1)	$ 136,151	$ 0	$ 0
Total	$3,926,787	$13,088,971	$14,457,916

Footnote:
(1) DPHHS required application fees in fiscal year 2000.

Source: Compiled by the Legislative Audit Division from SABHRS and SBAS.

Montana's CHIP program was fully operational in state fiscal year 2001 when maximum program enrollment was attained. This explains the large increase in total program expenditures from state fiscal year 2000. During fiscal year 2000, a portion of personal service expenditures for the CHIP program were funded from an enhanced Medicaid grant which was used to conduct outreach activities, develop a universal application for child health assistance programs, and refine application processing for Medicaid eligibility screening. Some staff positions authorized for fiscal year 2001 were vacant for a portion of the year. Operating expenses include building rent, general office costs, contracted data processing, and temporary staff services. Expenditures for social assistance include premiums for health insurance, and direct payments for dental services and eyeglasses.

Primary department responsibilities include: developing the program, implementing the State CHIP Plan, negotiating with a health plan provider to administer the insurance portion of the program, processing applications and determining eligibility, adopting administrative rules, administering dental and eyeglass benefit programs, providing customer service and referrals, managing program data, and conducting outreach activities. The program is administered almost entirely out of the central Helena office. The department contracts with a health insurance provider that charges monthly premiums per child. The insurance provider issues identification cards, provides enrollee handbooks and information, develops a health care provider network, and processes and pays medical claims.

Children are eligible for a period of 12 months and federal rules require eligibility to be re-examined at least annually. DPHHS central Helena office staff performs initial and continuing eligibility screening for the CHIP program. Persons interested in applying for CHIP must submit an application and supporting income-related documents. The department developed a universal application for this purpose. The application is used not only to apply for benefits under CHIP, but is also used to apply for Medicaid, Special Health

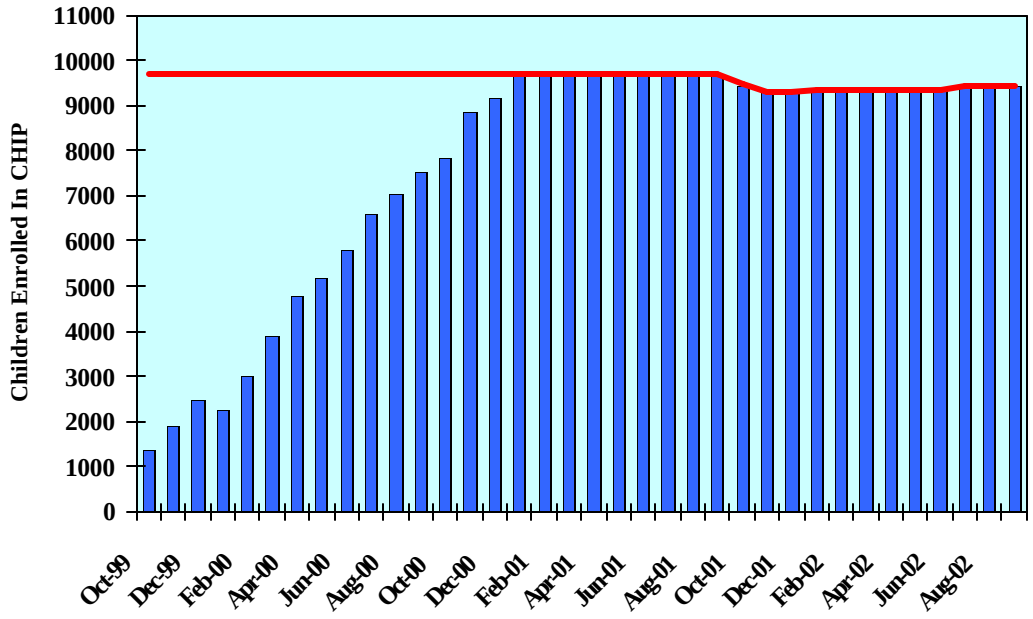
Services, Mental Health Services Plan, and The Caring Program. Applications for CHIP, Special Health Services, and Mental Health Services are all processed centrally while applications for Medicaid are processed by the department's local Offices of Public Assistance (OPA). Applications for The Caring Program are processed by Blue Cross Blue Shield.

Program Enrollment

The number of children that can be enrolled in Montana's CHIP program is limited by state funding constraints. Since Montana operates a separate program as opposed to a Medicaid expansion program, CHIP is not an entitlement and enrollment limits are allowed. CHIP reached maximum enrollment in January 2001. As a result, children determined eligible for CHIP are placed on a waiting list. As children lose their CHIP coverage (fail to re-enroll or no longer meet eligibility requirements) spaces in the program become available. The number of children on the waiting list fluctuates depending on a number of circumstances including economic conditions and outreach efforts. Enrollment is currently limited to 9,450 children. Enrollment caps have been as high as 9,700 children and as low as 9,300. The department maintains enrollment and waiting list information on a daily basis. The following figure shows the number of children enrolled in CHIP from October 1999 through September 2002 and enrollment limits.

Figure 2

Number of Children Enrolled in Montana's CHIP Program
October 1999 through September 2002

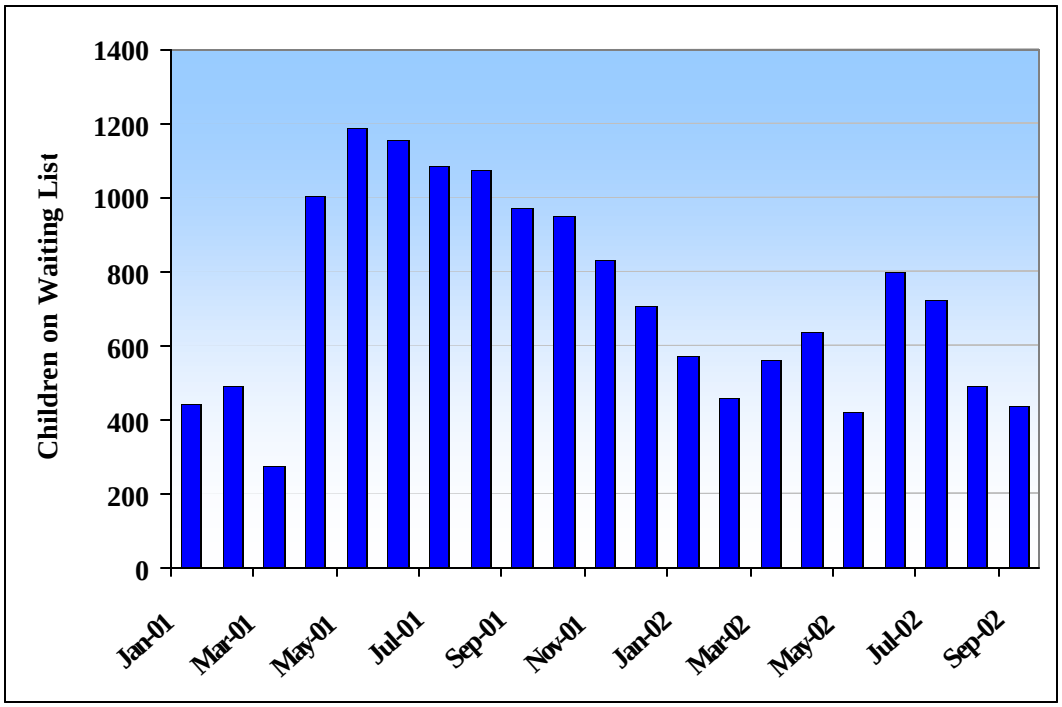


Source: Compiled by the Legislative Audit Division from DPHHS records.

The waiting list was initiated in January 2001 when the number of children eligible for CHIP exceeded the program's enrollment cap. The following figure shows the maximum number of children on the waiting list from January 2001 through September 2002. The department is only able to enroll a portion of the children from the waiting list each month. Thus, some children continue to remain on the waiting list into subsequent months. The department indicates the average wait is two to three months.

Figure 3

Number of Children on CHIP Waiting List
January 2001 through September 2002



Source: Compiled by the Legislative Audit Division from DPHHS records.

The decline in the number of children on the waiting list corresponds with the department's decision to scale back informational outreach efforts. Due to the limits placed on the number of children the department is able to enroll in CHIP and the existence of a waiting list, management believed it was not fair to advertise the program and generate more applications. As program advertising was scaled back, the number of applications submitted to DPHHS declined. In addition, the increase in Medicaid caseload may have some correlation to the number of applications submitted for CHIP as eligible populations are shifted from CHIP to Medicaid as family income falls, according to DPHHS staff.

The CHIP program has been widely used by low-income families in the state. Data compiled by the department shows more than 17,800 children were enrolled in CHIP during a three-year period covering fiscal years 2000, 2001, and 2002. The department received over 13,500 applications for CHIP during this time period. A data "snapshot" taken on July 15, 2002 reveals the following information regarding length of time children remain enrolled in CHIP:

- 16 percent 25 months or longer,
- 29 percent 13 to 24 months, and
- 55 percent 12 months or less.

Most children enrolled are over the age of six. This is likely due to the fact that Medicaid has higher family income limits that apply for families with children younger than six years old. Thus, young children are more likely to be served by Medicaid.

Program Eligibility

The following table shows the requirements for enrollment in Montana's CHIP program. All the requirements are based upon federal regulations with states allowed to only set maximum income limits. Federal regulations also provide states may permit applicants to self-declare that they meet eligibility requirements or states may require verification of statements. DPHHS elected to require verification of qualified alien status and earned income information. Thus, applicants self-certify some of the eligibility criteria but are required to provide supporting documents to verify others. The following table shows program eligibility requirements and those which require supporting documents.

Table 3

Montana's CHIP Eligibility Requirements

Category	Criteria	Additional Documents
Age	• 18 yrs old or younger	No
Citizenship	• CHIP child must be either US citizen or • A qualified alien	No Yes
Residency	• Child must normally reside in Montana	No
Income Limits	• Annual income must be at or below 150% federal poverty level • Earned income deduction of $120 per month for each wage earner • Dependent care deduction of $200 per month for each person receiving care	Yes Yes Yes
Medicaid Eligibility	• Children eligible for Medicaid not eligible for CHIP	DPHHS screens all applicants for potential Medicaid eligibility
Insurance Coverage	• Children cannot be enrolled in other health insurance 3 months prior to application • Children cannot be eligible for coverage under Montana's state employee benefit plan	No No
State Care	• Children are not eligible if incarcerated in a public institution or a patient in an institution for mental disease	No

Source: Compiled by the Legislative Audit Division from federal and state requirements.

Income Guidelines

To receive insurance coverage under CHIP, a family's gross annual income cannot exceed 150 percent of the federal poverty level. Gross income includes both earned and unearned income. Earned income includes wages, tips, and self-employment earnings. Unearned income includes income that is not earned such as child support, Social Security Disability Insurance Benefits, interest, or dividend income. The following table illustrates current annual income guidelines for CHIP program eligibility. Family income must be equal to or less than this amount for children to qualify for CHIP.

Table 4

CHIP Maximum Annual Family Income Guidelines
Effective March 13, 2002

Family Size (Children & Adults)	Income Limit
2	$17,910
3	$22,530
4	$27,150
5	$31,770
6	$36,390
7	$41,010

Source: Compiled by the Legislative Audit Division from DPHHS records.

When determining whether a family's income is within CHIP guidelines, the department allows for certain expenses to be deducted from earned income. These deductions lower a family's gross income. The first $120 of each wage earner's monthly income is deducted from his or her gross earnings, whether employed full time or part time. In addition, the department allows for up to $200 per month for dependent care expenses required for employment to be subtracted from monthly earned income. Department staff applies these deductions when screening for CHIP eligibility.

Insurance Coverage Guidelines

Title XXI requires states to include measures to prevent crowd out. Crowd out, also known as substitution, occurs when individuals or employers drop employer-sponsored or individual private health insurance in order to enroll in a public insurance program. Montana's CHIP program has several eligibility requirements to prevent or minimize crowd out. In order to be eligible for CHIP, a child cannot currently have or have been covered by health insurance three months prior to applying for CHIP. There are a few exceptions allowed to this three-month waiting period. The waiting period is waived if the guardian providing the insurance dies, is fired or laid off from employment, can no longer work due to a disability, has an

employer who does not offer dependent coverage, or has a lapse in coverage due to new employment.

In addition, federal regulations state children of parents (or guardians) eligible to receive health insurance benefits under a benefit plan organized by state government for state employees or other public agency employees are not eligible for the CHIP program. In Montana, children of parents employed by the State of Montana are not eligible for CHIP. The restriction does not apply to children of local government employees since the State Health Benefits Plan does not cover them.

Health Benefits Package

The federal government requires states to develop a health benefits package based on one of the allowable benchmark plans. The benchmarks set a minimum level of services states must provide CHIP enrollees. For Montana, the benchmark plan is the basic plan offered to employees of the State of Montana. Key benefits available to CHIP enrollees include: hospitalization, in-patient services, outpatient services, physician exams, well-child care, prescription drugs, x-ray services, laboratory tests, vision exams, and mental health services. DPHHS expanded this basic care plan by adding limited provisions for dental services and eyeglasses. The department enrolled over 200 dentists to provide dental services to CHIP enrollees. The maximum dental benefit per child is $350 per year. Eyeglasses are provided through a bulk-purchasing contract. Each child may receive one pair of eyeglasses per year. Contact lenses are not covered.

Health care providers are reimbursed at a negotiated percentage of usual and customary charges. The health insurance administrator pays health care providers for services covered under the primary benefit plan. Providers of dental services and eyeglasses are reimbursed for their services directly by DPHHS. These services are not covered through the insurance plan.

Co-Payments for Some Services

There are no enrollment fees or premium cost sharing required for participation in CHIP. However, families are required to submit co-

payment for some services. Whether or not a co-payment is assessed depends on a family's annual income. Co-payments are not assessed if a family's income is equal to or less than 100 percent of the federal poverty level. Co-payments are subject to an annual maximum of $215 per family per benefit year. Co-payments are paid directly to health care providers, in much the same manner as other private health insurance plans.

Other Children's Health Insurance and Care Programs

There are a number of programs available in Montana that offer either health care, health insurance, or defray health-care costs for children. Some of these programs are administered by the state while others are privately funded and operated. Many of the programs are targeted towards children from low-income families but there are also programs for children from higher-income families, or children with specific health care needs and concerns. Eligibility or entry into these programs is generally based on the following categories: income, income and physical condition, physical conditions only, or those open to anyone. These programs either assist families by defraying medical costs, providing health insurance, or providing primary health care. The following section details free or low-cost health insurance and medical coverage programs for children.

Programs Based on Income

Eligibility for the following three programs is subject to limits on family income.

- **Medicaid** (state)**:** Defrays medical costs. Eligibility is also limited by value of assets a family owns. Provides more thorough benefit coverage than other programs. Income up to 133 percent of federal poverty level for children under six years old and 100 percent for children six years or older.

- **Children's Health Insurance Plan (**state)**:** Provides health insurance. Children cannot be eligible for Medicaid or have existing health insurance. Income up to 150 percent of federal poverty level.

- **Caring Program For Children** (private)**:** Defrays medical costs. Pays for basic primary and preventative health care services for uninsured children. Income up to 200 percent of

federal poverty level. Designed to cover children with family income above CHIP limits. Enrollment is limited so there is a waiting list for entry to the program.

Programs Based on Income and Physical Conditions

Eligibility for the following programs is based upon income limits and physical health conditions. These programs assist families by paying medical costs and finding resources for children with special health care needs.

- **Special Health Services** (state)**:** Defrays medical costs. Assists with medical costs that arise from treating children with special health needs such as heart conditions, cleft/crania-facial abnormalities, orthopedic or neurological conditions, chronic conditions (diabetes, asthma, cystic fibrosis), or developmental delay.

- **Mental Health Service Plan** (state)**:** Defrays mental health costs. Provides coverage for individuals with severe disabling mental illnesses and serious emotional disturbances. Can be in addition to other insurance (except Medicaid).

  Children enrolled in CHIP are eligible to receive mental health services up to benefit maximums of 21 inpatient days and 20 outpatient visits each year. Once these maximum benefit amounts are reached, children may receive additional mental health services under MHSP – providing they meet eligibility requirements of this program. For inclusion under MHSP, the child must be diagnosed as seriously emotionally disturbed. CHIP and MHSP staff coordinates to ensure children with mental health service needs beyond those benefits offered under CHIP receive needed mental health services.

Programs Based on Physical Conditions

There is a health insurance program that was established by the legislature for the purpose of making benefits available to high-risk individuals regardless of pre-existing physical conditions. There are no income or asset qualifications for this program.

- **Montana Comprehensive Health Association** (private): Non-profit entity which provides health insurance. Must have a specified major illness such as: cancer, AIDS, coronary artery disease, or autoimmune disorders. Also provides insurance to those who have been rejected or offered a restrictive rider by two insurers within the last six months. Funded through premiums

paid by enrollees and assessments paid by health insurers operating in the state.

Health Clinics and Private Insurance Programs

In Montana, there are 13 federally funded community health centers that provide many services for uninsured and medically under-served. Fees are based on a sliding scale that varies with income. Community health centers are located in Billings, Butte, Great Falls, Helena, Livingston, Missoula, and St. Ignatius. Public health departments around the state also provide free or low-cost services that are available to anyone regardless of income. They provide many services to children such as: well child checkups, health screenings, immunizations, Women Infants and Children (WIC), and communicable disease treatment and prevention. Tribal health departments also provide services to eligible members. In addition, a number of private sector insurance companies also offer health insurance plans tailored to children from lower income families. These plans generally offer a more limited benefits plan.

Summary Information

The following table presents an overview of the various health insurance and heath care programs or plans targeting children in Montana.

Table 5

Health Insurance and Health Care Programs for Montana Children.

Program Type & Name	Program Purpose	Funding Source	Income Test	Asset Test	Age Limit	Private Pay Premium	Deductible	Co-payment
Income Based								
• **Medicaid**	Defray Costs	G	✓	✓	✓			
• **CHIP**	Insurance	G	✓		✓			✓
• **Caring Program**	Defray Costs	P	✓		✓			
Income & Physical Condition								
• **Special Health Services**	Defray Costs	G	✓		✓			
• **Mental Health Services Plan**	Defray Costs	G	✓		✓			
Physical Condition								
• **MT Compre-hensive Health Assoc.**	Insurance	P				✓	✓	✓
Clinics & Private Insurance								
• **Community Health Centers**	Direct Care	G						✓
• **Indian Health Services**	Direct Care	G						✓

Legend: G = government
P = private

Source: Compiled by the Legislative Audit Division.

Chapter III - CHIP Program Operations

Introduction

Two of the objectives of this audit were to evaluate efficiency of overall management of Montana's CHIP program and assess compliance with federal and state regulations. During the audit, we examined procedural and compliance areas associated with administering and managing the CHIP program. We examined areas related to processing applications, determining eligibility, enrolling eligible children in the insurance plan, administering the CHIP waiting list, re-certifying continued eligibility of enrolled children, and routing applicants between various children's health care programs. We also expanded audit scope to include testing of a computer system used to screen CHIP eligibility. Based upon this audit work, we developed the following conclusions:

- CHIP program operations are efficiently administered and comply with federal and state regulations related to CHIP programs.
- Operations could be strengthened by: reviewing how staff estimate applicants' annual income, ensuring staff thoroughly document eligibility decisions, improving administration of the waiting list, and updating the electronic version of the CHIP application.

We discuss these conclusions in the following sections.

CHIP Program Well Managed

Overall, we found the CHIP program is administered in an efficient manner and key areas of the operation are well organized. Audit testing revealed program operations generally comply with related federal and state requirements. We found program management is responsive to recognizing system inefficiencies or bottlenecks and correcting them. The program is run in a pro-active manner and management and staff search for better ways to do things.

During the audit, we performed specific testing and review of CHIP program operations. The majority of program areas and functions examined operate as intended. The following sections discuss those areas.

Application Work Flow

Conclusion: The department developed a workflow process that ensures CHIP applications are processed in a timely manner and workload is actively managed and monitored.

In the past, the department had difficulty effectively managing the volume of CHIP applications received. As a result, there was a backlog of applications waiting to be processed and screened for CHIP eligibility. At times this backlog was as much as six weeks. The federal government set standards related to timely processing of CHIP applications. Federal regulations allow states to set their own processing standards but provide these standards cannot exceed 45 calendar days. The following table shows the average number of applications received each month for calendar years 2000 through 2002.

Table 6

Average Number of Applications Received Per Month
Calendar Years 2000, 2001, and 20002

Calendar Year	New Applications	Renewal Applications	Total Applications
2000	358	82	440
2001	197	218	415
2002	174	243	417

Source: Compiled by the Legislative Audit Division from DPHHS records.

During the audit, we examined department management of the application workflow. We found the department developed a workflow process that ensures applications are processed in a timely manner. The majority of applications are processed within 12 working days of receipt. This is well within federal guidelines of 45 calendar days and within the department's target of 20 working days. Workflow system design strengths include:

- ✓ All applications are logged in on receipt at the department and are tracked to ensure they are processed and pending issues resolved.

- ✓ Applications are prioritized for processing according to date received ensuring oldest applications are processed first.
- ✓ Application workload is actively managed and monitored.
- ✓ Department established both overall and individual staff processing goals and attainment is monitored.
- ✓ Staff follow-up on applications referred to other sections of DPHHS to ensure resolution.

Eligibility Screening

Conclusion: Eligibility decisions generally comply with federal and state CHIP program requirements.

Federal and state governments both specify eligibility standards for enrollment into the CHIP program. During the audit, we reviewed a sample of 55 application files and related-information compiled by the department during eligibility screening to determine whether eligibility decisions comply with these federal and state requirements. The following table details the results of our review.

Table 7

Testing Results of CHIP Eligibility Screening

Category	Criteria	Comply	Percent of Sample
Age	• Adhere to age restrictions?	Yes	100%
Citizenship	• Child must be U.S. citizen or qualified alien?	Yes	100%
Residency	• Child must normally reside in Montana?	Yes	100%
Income Limits	• Annual income at or below 150% federal poverty? • Annual income correctly estimated? • Dependent care disregard correctly estimated?	Yes Yes Yes	96% 88% 100%
Medicaid Eligibility	• Children not Medicaid eligible? • Screened for potential Medicaid eligibility? • Potential Medicaid eligible referred to OPA?	Yes Yes Yes	100% 100% 100%
Insurance Coverage	• No health insurance 3 months prior to application? • Not eligible for state employee insurance plan?	Yes Yes	100% 100%
State Care	• Children not in custodial care of the state?	Yes	100%
Decision Documented	• Eligibility decisions adequately documented?	Yes	96%

Source: Compiled by the Legislative Audit Division.

Audit testing showed that overall the department's eligibility decisions comply with federal and state CHIP program requirements. Eligibility requirements related to age, citizenship, state residency, Medicaid eligibility, health insurance, and state custodial care were followed in all cases we reviewed. Testing also showed the department ensures required proof of income and dependent care expenses are provided along with applications. However, the department could improve its CHIP screening process related to income limits. This issue is discussed later in this chapter.

Computer System Controls

Conclusion: The computer system used to assist with screening applicant eligibility (TESS) functions as intended and has safeguards in place to prevent unauthorized access. Data

contained on the system accurately reflects information provided on applications and supporting documents.

The department uses a computerized system to assist with eligibility screening of CHIP applicants. Staff input information from the application, and from income and childcare expense documents into the system. The system then compares the input data to eligibility requirements for CHIP and Medicaid to determine whether or not the applicant is eligible for either program. The system contains various tables that contain values which affect eligibility decisions. For example, there is a table containing current federal poverty levels upon which a comparison of applicant income is made.

During the audit, we examined these master tables to ensure they accurately reflect program eligibility standards. Our testing showed the eligibility tables contained in TESS are correct and correspond to standards detailed in statute, administrative rules, and department policy. Our use of the system during file review allowed us to examine a number of individual cases to test the integrity of the TESS eligibility calculations. We made our own assessment of CHIP and Medicaid eligibility and compared this to the system's assessment. We found the system accurately processes information used for determining eligibility. Thus, our review of master tables and system processing shows TESS functions as intended and eligibility decisions produced by the system are correct.

Overall system security and ensuring system users have only appropriate levels of access to system components are important features of any information system. We examined system access and found that the system is secure and access appropriately limited.

We also compared a sample of applications and supporting documents to data input on TESS to ensure data was accurate. We compared information in key TESS data fields (names, number of family members, number of children, income, child care expenses) to assess accuracy. Our review showed that data contained on TESS

accurately reflects information provided on the application and contained in supporting documents.

Re-certification of Continued Eligibility

Conclusion: CHIP eligibility is re-certified every 12 months for each enrolled member as required by federal and state standards. The department has an effective and efficient re-certification process in place.

Children who are found eligible for CHIP are eligible for 12 months of insurance coverage. Federal and state requirements stipulate CHIP eligibility must be re-determined at least every 12 months. This is done to ensure children enrolled in CHIP continue to meet eligibility requirements for the program. Prior to re-enrolling children, department staff must review all financial and non-financial requirements affecting eligibility. Key requirements include: income limits, proof of income, no other health insurance coverage, Medicaid eligibility, and number of persons living in the household.

During the audit, we examined the re-certification process used by the department. Audit testing revealed CHIP enrollee eligibility is re-determined every 12 months as required and applicable eligibility requirements are examined to ensure they are met. We found enrollees who continue to meet eligibility requirements are re-enrolled and those who do not are dropped from the program. Data compiled by the department shows that the primary reasons CHIP enrollment ends are families become ineligible because family income changed and placed them over or under CHIP criteria, or they chose not to renew CHIP.

We found the department developed an effective and efficient re-certification process. Their administrative goal is to ensure eligible children remain enrolled in the program with no lapse in coverage. Management has taken a pro-active approach to this issue, conducting telephone surveys to determine why some families do not complete and submit renewal applications. They analyzed results of these surveys in order to target areas of the re-enrollment process that could be improved. In January 2000, only 48 percent of families

enrolled in CHIP submitted renewal applications - even though many continued to meet CHIP eligibility requirements. Twenty five percent of families responding to the telephone survey indicated they did not submit renewal packets because they either lost it or did not complete it by the deadline, did not understand they needed to re-apply, or never received a renewal notice. By simplifying and streamlining the renewal process, the department has been able to bring the 48 percent rate up to 80 percent in June 2002. Key changes undertaken with the renewal process include:

- ✓ Renewal process started well in advance of a family's CHIP coverage end date to allow ample time for renewal.
- ✓ Notices are sent to CHIP families to remind them to renew coverage.
- ✓ Postcard notices are printed on brightly colored paper so they are distinct.
- ✓ Renewal applications have been shortened and simplified.
- ✓ A portion of data on the application is pre-printed to reduce the amount of information applicants must complete.
- ✓ Notices are sent to CHIP families who fail to respond to renewal advising them their child's insurance coverage is going to end and prompting them to contact the department via a toll-free phone number.

We found department staff efficiently processes renewal applications. CHIP renewal applications are treated as a priority item. This ensures no child is dropped from the program because the renewal application was not processed prior to the end of the family's insurance eligibility period. Audit testing showed renewal applications are processed in an average of 6 days, well within the department's 10 working day goal.

Administration of CHIP Waiting List

Conclusion: Department staff administers the CHIP waiting list in a fair and equitable manner.

There is a limit on the number of children that can be enrolled in CHIP due to program funding constraints. As a result, children who are eligible for CHIP are placed on a waiting list. Children are placed on the waiting list by date and time determined eligible. As openings in the insurance program become available, children on the waiting list are enrolled and insurance coverage begins. The department has maintained a waiting list since maximum enrollment was reached in January 2001.

During the audit, we examined the process used by the department to administer this waiting list to ensure all CHIP eligible applicants are placed on the list and subsequently enrolled in the program. We found the process used by the department to administer the CHIP waiting list and enrollment is fair and equitable. The department designed a set of controls to safeguard this process. A key element of the process is use of a computer-automated system for determining applicant eligibility and placement onto the waiting list. Applicants found eligible for CHIP are placed on the waiting list (by the computer) by date and time found eligible. Access to the waiting list function is restricted and unauthorized persons cannot alter data in this list. Audit testing showed all applicants deemed eligible are in fact placed on the waiting list and as openings in the program occur, applicants are taken from the waiting list in first come, first served order and enrolled in CHIP.

Enrollment and Discontinuation of Insurance Coverage

Conclusion: The department established procedures and controls that ensure only children who meet eligibility criteria during enrollment and re-enrollment receive CHIP sponsored health insurance and those who are determined at this time to be ineligible lose coverage.

Ensuring only children found eligible for CHIP receive insurance coverage is an important part of administering the program. Double-checking action to cancel insurance coverage for children is equally important. During the audit, we examined procedures used by the department to control the admission and removal from CHIP coverage. We found the department has controls in place that

provide assurance that only eligible children receive insurance coverage and ineligible children lose coverage. Specific controls in place include:

- ✓ Enrollment function is automated and access restricted to management.
- ✓ Two supervisory-level staff reconcile enrollment and dis-enrollment records.
- ✓ Monthly reconciliation of department eligibility records against insurance provider enrollee records ensures enrollee and dis-enrollee data is correct.
- ✓ System will not allow enrollment of children eligible for Medicaid.
- ✓ Automated comparison of CHIP enrollment information against Medicaid enrollment information to identify duplicates.

Referral to Health Care Programs

Conclusion: The department developed a process for ensuring applicants ineligible for CHIP are referred to other children's health care programs.

During the 1999 Legislative Session, Senate Bill 364 (Chapter 215) was passed requiring DPHHS to develop and implement a simplified application and process for various programs that provide health insurance, medical assistance, or medical benefits to children. A related objective outlined in Montana's State CHIP Plan is to "coordinate and consolidate with other health care programs providing services to children to create a seamless health care delivery system for low-income children." One of the steps taken by the department to simplify the process was to develop a universal application for children's health programs. In addition, department staff are to forward applications to appropriate department programs for screening.

During our audit, we reviewed a sample of applications submitted to CHIP to ensure those ineligible for CHIP are referred to other children's health care programs in a reasonable manner and time

frame. We found the department developed a process for referring applicants ineligible for CHIP to other children's health care programs. Appropriate and timely referrals are made to other DPHHS administered programs including Medicaid, Special Health Services Program, and Mental Health Services Program. Staff also appropriately refers ineligible CHIP applicants to children's health care and health insurance programs that are privately operated including The Caring Program for Children and the Montana Comprehensive Health Association. We also found referrals to health care clinics such as Well Child Clinics, Indian Health Service Centers and community health centers for low-income families. It was evident during our review that assistance did not stop just because an applicant was ineligible for CHIP. CHIP management and staff take steps to ensure low-income families are referred to other programs and resources that can help them with health care coverage.

Cost Efficient Operations

Conclusion: The CHIP program is operated with a low ratio of spending on administrative expenses and insurance premiums are reasonable when compared to other states.

Administrative Expenses Kept Below 10 Percent Limit

The full federal matching rate is available for primary expenditures for child health assistance. However, federal law limits the amount of federal matching funds available for states' administrative costs to ten percent of total program expenditures. Administrative expenditures exceeding the ten percent cap must be funded entirely by the state. The federal government applies this limit to expenditures for general program administration, outreach, health service initiatives, and direct purchase of services to provide child health assistance. We compiled information on administrative expenses incurred by the department in operating the CHIP program. The following table contrasts administrative expenses to social assistance-related expenses incurred during the three most recent state fiscal years.

Table 8

CHIP Program Administrative vs. Social Assistance Expenditures
Fiscal Years 2000 through 2003

	FY 2000		FY 2001		FY 2002	
Administrative Expenditures	$ 428,477	11%	$ 908,352	7%	$ 910,256	6%
Social Assistance	$3,498,310	89%	$12,180,619	93%	$13,547,660	94%
Total Expenditures	$3,926,787		$13,088,971		$14,457,916	

Source: Compiled by the Legislative Audit Division from SABHRS.

While federal regulations allow states to spend up to ten percent of expenditures on program administration, the department does not currently spend the maximum amount and has reduced administrative expenditures over the past three fiscal years to the current level of six percent. As a result, additional dollars are directed towards social assistance including health insurance premiums, dental care, and eyeglasses.

CHIP Insurance Premium Reasonable

The department contracts with a private health insurance provider to administer the claims portion of the CHIP program. Blue Cross Blue Shield of Montana (BC/BS) has provided this service since 1999. While the department processes applications and screens for eligibility – the insurance provider administers the insurance portion of the program including: establishing and negotiating a health provider network; providing member services such as enrollee packets, cards, and telephone hot line; and, claims administration. The insurance portion of the program is called "Blue CHIP". BC/BS currently has over 1,330 physicians, 1,450 allied providers, and 123 hospitals and other facilities participating in the Blue CHIP provider network. The insurance provider assesses the state a monthly insurance premium for each enrolled child in return for services. Monthly and annual insurance premium rates since the inception of CHIP are detailed in the following table.

Table 9

CHIP Health Insurance Premiums - Per Member
Insurance Benefit Years 1999 through 2003

Benefit Year	Monthly Premium	Annual Premium	Percent Change
Oct. 1 1998 - Sept. 30, 1999	$ 90.01	$ 1080.12	Not applicable
Oct. 1 1999 - Sept. 30, 2000	$ 101.42	$ 1217.04	12.7 %
Oct. 1 2000 - Sept. 30, 2001	$ 107.61	$ 1291.32	6.1 %
Oct. 1 2001 - Sept. 30, 2002	$ 107.61	$ 1291.32	0.0 %
Oct. 1 2002 - Sept. 30, 2003	$ 107.61	$ 1291.32	0.0 %

Source: Compiled by Legislative Audit Division from DPHHS records.

After increases in the premium during the first years of the program, the insurance provider has maintained existing premium levels in the most recent years. According to department management, the provider is supportive of the CHIP program and as a result, is committed to keeping premium levels as low as possible.

Ninety-seven percent of the premiums collected by BCBS are used to pay for claims, administer Blue-CHIP, and maintain an insurance reserve. However, three percent of premiums collected are allocated to The Caring Foundation of Montana, Inc., a 501(c)3 foundation created in 1992 to provide health care for uninsured children in Montana through the Caring Program for Children. Part of BCBS's contractual obligation with Blue-CHIP providers requires that 25 percent of the funds from the settlement (reserve fund) of the CHIP program is allocated to the Caring Program for Children. For the insurance benefit year that ended September 30, 2001, $363,850 was allocated to the Caring Program for Children to pay for health care for uninsured children not eligible for CHIP.

Comparison to Other State CHIP Programs

Several groups including the National Conference of State Legislatures (NCSL) compiled comparative data regarding CHIP programs offered by individual states including premium amounts. NCSL conducted a survey of twenty-three states and compiled premium information for CHIP programs for 1999 and 2001. Results of this survey are provided in the following table.

Table 10

Comparison of Monthly CHIP Premium to Other States
Calendar Years 1999 and 2001

	Lowest Premium	Highest Premium	Montana's Premium
1999	$ 42.00	$ 418.00	$ 101.42
2001	$ 84.33	$ 144.73	$ 107.61

Source: Compiled by the Legislative Audit Division from National Conference of State Legislatures study.

In conducting premium comparisons, NCSL indicates it is difficult to compare CHIP premiums between state programs due to variations in each programs' benefit packages. NCSL also performed comparisons between CHIP premiums and private insurance premiums. This comparison is also difficult because most privately insured children are covered under a family policy, which does not specify single person coverage for a child. However, NCSL obtained comparative data to HMO premiums that showed the average nationwide monthly HMO premium was $ 133.05 per child in 2000.

Independent Review of Premium Amount

The department contracts with an actuarial firm to review financial information related to the CHIP insurance program each year. The actuarial firm examines overall financial health of the insurance fund. It includes an examination of premium income, claims, administrative costs, and profit/loss margin. The actuary also compares the information provided by the insurance firm to national medical "pricing norm" data. In this way, an expert examines the financial health of the CHIP insurance fund and develops a recommended premium that is fair to the department. The department uses this information in its negotiations with the contracted insurance provider to set premium amounts.

Summary

The annual review performed by an independent actuarial firm and comparative data compiled by NCSL, provide a level of assurance that Montana's CHIP premium is reasonable.

Chapter III – CHIP Program Operations

Areas Where Operations Could be Strengthened

Our review identified three areas for improvement:

1. Estimating CHIP applicant's annual family income and documenting eligibility decisions.
2. Administering the CHIP waiting list.
3. Eliminating use of the CHIP-only application.

The following sections discuss areas where CHIP operations could be strengthened.

Eligibility Decisions

Staff located in Helena process all applications for enrollment in CHIP. Staff reviews the applications and attached verification documents to determine whether program eligibility requirements are met. One of the primary areas we focused our attention on was the process used by the department to determine and document CHIP eligibility. Audit testing showed eligibility screening could be improved in two areas: estimating CHIP applicant's annual family income and thoroughly documenting eligibility decisions. We believe the department could address identified weaknesses by implementing a quality control system, developing specific department policy, providing additional training to staff, and developing a compulsory data field to document eligibility decisions. The following sections discuss our findings and recommendations.

Estimating CHIP Applicant's Annual Family Income

In order to receive insurance coverage through CHIP, a family's countable annual income cannot exceed 150 percent of the federal poverty level. All earned income and the majority of unearned income is countable. Families are required to submit verification of earned income along with their application. Income verification is required in the eligibility section of Montana's State CHIP Plan and in section 37.79.201(3), of the Administrative Rules of Montana. CHIP staff use the applicant's income information to calculate the family's annual countable income to determine whether or not it is within CHIP eligibility guidelines.

Some applicants provide CHIP with annual earned income information from federal income tax documents or W-2 earnings statements. However, the majority provide copies of individual pay check receipts. CHIP staff use information provided on earned income documents and calculate an average pay amount per pay period. This amount is input on the eligibility database (TESS) along with how often pay is received and the system calculates the family's countable annual income. In those cases where applicants provide other than annual income information, the department's CHIP policy manual requires staff to determine a family's annual income based upon documents provided.

During our audit, we examined a sample of CHIP applications and supporting documents in order to review the eligibility decision process. Our file review showed CHIP staff did not correctly determine a family's countable annual income for 12 percent of sampled applications. Errors were made in determining an average amount of pay per pay period. For example, staff calculated an applicant's family income using the lowest income reported on pay receipts rather than averaging pay from all provided pay receipts. Another example revealed CHIP staff did not include tip income in determining a family's annual countable income. Staff should use applicant's average pay and include income from all countable sources in order to accurately determine a family's annual income. In addition, we found errors occur when indicating frequency of earned income. For example, staff indicated on TESS that an applicant's earned income from employment was received bi-weekly when an examination of income documents showed pay is received semi-monthly. Thus, this applicant's annual income was overstated because average pay was multiplied times 26 bi-weekly payments rather than 24 semi-monthly payments.

Errors made by staff estimating an applicant's annual countable income directly affect applicant eligibility for CHIP. Of the six sample items we found where staff incorrectly calculated annual countable income, our calculations reveal income was overstated for two applications and understated for the four remaining applications.

Further, it appears two of the applicants (four percent of the sample) were improperly enrolled in CHIP since their countable income exceeded CHIP limits. One applicant's annual countable income was slightly over the limit while the other applicant's income was substantially over CHIP income limits. Eligibility was not affected by the calculation error for the other four applicants.

Documenting Eligibility Decisions

The department's CHIP Policy Manual requires each eligibility decision be supported by information that is included on the application, documented by attachments provided with the application, or acquired through collateral contact with another source such as Social Security Administration. As department staff process CHIP applications, the eligibility decision process is documented on the eligibility database (TESS) in the "Notes Section" and in individual hard copy files created for each applicant.

During our file review, we examined applicant files and information contained on the eligibility data base (TESS) to determine whether eligibility decisions were adequately documented and supported. We found that the majority, or 96 percent, of eligibility decisions are adequately documented. However, for two of the sampled applications we found key eligibility decisions were made but not adequately documented. Although improper documentation was found in only four percent of sampled items, the errors related to high risk areas involving income and Medicaid eligibility screening. For example, one applicant submitted conflicting employment income information. The application indicates one place of employment; however, income documentation provided with the application indicates two places of employment. Staff processing the application did not include employment income from both jobs in the eligibility decision – using only the income reported on the application. There are no notes in either the hard copy files or on the TESS notes section explaining and supporting this decision. Another application was processed by CHIP staff and forwarded to a local Office of Public Assistance for determination of Medicaid eligibility, as family resources appeared to be within Medicaid income guidelines. However, there are no notes in the hard copy file or on

the TESS notes section explaining why only a portion of the application was input on TESS and no reasoning provided to explain why the application was forwarded. It is unclear whether this application was completely screened for CHIP eligibility.

It is important that staff properly document key eligibility decisions. It is difficult to support decisions without full documentation. For example, in the case of the application we reviewed with conflicting information regarding the number of places of employment, it appears income may have been under-estimated by staff and the applicant is in fact not eligible for CHIP. Inadequate documentation could become a problem should an applicant appeal an eligibility decision. In addition, bureau staff access application information via TESS in order to check status of an application, finalize pending applications, and answer applicant questions. Inadequately documenting eligibility decisions makes it difficult for other bureau staff to determine the status of an application and reasons supporting an eligibility decision.

Eligibility Decision Process Could be Improved

Staff inexperience may be a factor that contributes to instances when applicants' annual family income is not correctly calculated or eligibility decisions are improperly documented. The department previously used local OPA office staff and currently uses temporary staff to assist with processing CHIP applications. Direct training is provided to staff when they first begin processing applications and then tapers off. There is no provision for periodic formal training to update staff and ensure consistency in operations. The same is true of supervisory review of applications. Supervisors review applications processed by new staff. However, only limited review of application processing is done once staff gains experience. The lack of on-going staff training and supervisory review of applications allows processing errors and inconsistencies to remain undetected. In addition, while department policy contains a section on determining annual income, there are no specific instructions for calculating an average income amount for the applicable pay period. The fact that the TESS notes section is not a compulsory field and can be by-passed, also contributes to documentation problems.

It is important that applications are consistently processed and an applicant's annual income is correctly calculated when determining CHIP eligibility. In addition, eligibility decisions must be supported by documentation. The department should provide for periodic, on-going training of staff to ensure eligibility decisions are correct and staff are consistent in their treatment of applications. Training should focus on estimating annual income of applicants and should also address the extent of income verification required. In addition, the department should implement a quality control function whereby supervisors periodically review a sample of applications processed by staff to ensure consistency in eligibility decisions and proper documentation. There are other changes that would strengthen the eligibility process. The department should develop specific policy on determining annual income which includes guidelines for determing an average income. In addition, the department should make the notes section of the TESS database a compulsory field for documenting eligibility decisions.

Recommendation #1

We recommend the Department of Public Health and Human Services:

A. Expand the policy regarding calculating annual income to include guidelines for determining an average income.

B. Provide for periodic, on-going training of staff that focuses on estimating annual income of applicants.

C. Implement a quality control system that includes periodic supervisory review of a sample of applications processed by staff.

D. Make the notes section of the TESS database a compulsory field for documenting eligibility decisions.

Administering the CHIP Waiting List

CHIP funding is limited. After the maximum number of children is enrolled, a waiting list is established for children determined eligible for CHIP coverage but for whom space in the program is not currently available. CHIP eligible children are placed on the waiting

list in the order in which they are determined eligible (by date and time of day). This is an automated function that is performed by the eligibility system, TESS. Children are moved from the list to enrolled status as positions become available. Enrollment in the health insurance program occurs at the end of the month. Children who were placed on the waiting list first are enrolled first. Thus, children who have waited the longest are enrolled first.

During the audit we found that while the waiting list function is automated, management can over-ride the function and move an applicant up on the list. This allows them to prioritize an application when circumstances dictate - such as when an application is delayed due to an error by the department. However, department policy does not address over-riding the waiting list function nor does it detail circumstances in which an override can be used. In addition, we found override decisions are not documented apart from an entry made in the notes screen of TESS. Since the TESS notes screen field is neither compulsory nor searchable, management does not have an ongoing record of override decisions. The override may or may not be documented on the system and there is no way of extracting this information from the system.

The draft revision of CHIP policy manual states, "eligible children will be placed on the waiting list in the order in which they are determined eligible." There are no statements qualifying this policy or providing for exceptions. (Current CHIP policy manual contains minimal information about the waiting list function). However, the action of overriding the waiting list function to place eligible children higher on the list appears to be a legitimate and necessary response to the circumstances of some applicants. For example, a CHIP application could be forwarded to a local OPA for Medicaid screening, found ineligible for Medicaid, and the decision not relayed to CHIP staff. As a result, the application is in a pending status at CHIP awaiting results of Medicaid review. This would constitute an unreasonable administrative delay and would justify preferential placement on the waiting list. Policy should accurately reflect current operations. In addition, recording data on program

operations in an accessible format that allows for periodic analysis by management is generally considered to be good management practice.

There are several potential impacts of not having documented policy and records related to waiting list overrides. First, without guidelines in place, different supervisors could potentially apply different standards when making an override decision leading to inequitable treatment of applicants. In addition, management is currently unable to produce any data regarding frequency of either waiting list overrides or reasons supporting such decisions. Although overrides appear to occur relatively infrequently, there is no available data on which to base judgments regarding reasonableness of the procedure. While waiting list override data is on TESS, it cannot be reasonably accessed. Thus, we could not examine individual cases where management overrides automated placement on the waiting list to determine whether these decisions were justified and supported.

Management of the CHIP program did not initially envision having a situation where there would not be enough positions available to enroll all children eligible for CHIP. They did not anticipate a waiting list function becoming a permanent feature of the program. Although the original policy manual mentions the waiting list, operation details are minimal. As the program developed, the waiting list policy has been expanded but procedures for overrides are yet to be included.

The department should expand its policy relating to the CHIP waiting list to include the override function and details on what circumstances justify changing the position of a CHIP eligible applicant's placement on the list. In addition, the department needs to document any waiting list overrides to ensure all overrides are justified.

Recommendation #2

We recommend the Department of Public Health and Human Services:

A. Expand department policy relating to the CHIP waiting list to include specific guidance for the override function.

B. Develop a process to document any waiting list overrides performed by department management.

Eliminate Use of CHIP-Only Application

Individuals interested in applying for the Children's Health Insurance Plan must complete an application and submit it to the department. Originally, the CHIP program had an application specific to the program. During the 1999 Legislative Session, Senate Bill 364 (Chapter 215) was passed requiring DPHHS to develop and implement a simplified application form for programs that provide health insurance, medical assistance, or medical benefits to children. In order to comply with statute, the department developed a universal application form that is used to apply for all children's health insurance and medical coverage programs including: CHIP, Medicaid, The Caring Program for Children, Special Health Services, and Mental Health Services Plan.

During the audit, we found the department does not exclusively use the universal application. The original CHIP application is still in circulation. Our observations showed 12 percent of all applications submitted to CHIP are CHIP-only applications. It appears one of the primary reasons the CHIP-only application continues to be used is that it is posted on the department's website for applicants to download. In addition, some of the local Offices of Public Assistance across the state have the CHIP-only application on hand and provide it to applicants.

There are two concerns with the department's continued use of the CHIP-only application. First, it circumvents the legislature's intent of reducing the number of applications the general public must complete in order to apply for assistance programs. Secondly,

CHIP-only applications are problematic to process. Federal requirements specify Medicaid eligible children cannot be enrolled in CHIP. Thus, all CHIP applications are screened for potential Medicaid eligibility. The original application used for the CHIP program allowed applicants to select an option that they did not want their application forwarded to the local Office of Public Assistance for Medicaid determination. Thus, if an applicant appears to be Medicaid eligible and has checked the "Do Not Forward" box, CHIP staff is prohibited from directly referring the applicant to their local Office of Public Assistance for Medicaid screening. The applicant is deemed CHIP ineligible, as they are potentially Medicaid eligible. CHIP staff must send the applicant a letter explaining this decision along with a universal application and request they complete the universal application and submit it to the local Office of Public Assistance to be screened for Medicaid eligibility. This procedure substantially slows down processing and is an inefficient way to deal with an applicant.

Department management indicates they are aware the outdated CHIP-only application is on the DPHHS website. Replacing it with the universal application has proven to be challenging due to the current form's design. The department should revise the universal application so it is compatible with a web-based format and post this version on the website. In addition, the department should notify all Offices of Public Assistance to discontinue using the CHIP-only application and use the universal application for persons applying for any children's health programs.

Recommendation #3

We recommend the Department of Public Health and Human Services:

A. Revise the universal application so it is compatible with a web-based format and post this form on its website.

B. Notify local Offices of Public Assistance to discontinue use of the CHIP-only application.

Chapter IV - Areas for Legislative Consideration

Introduction

The third objective of this performance audit was to provide the Legislature with information specific to funding and programmatic issues that impact or could impact the CHIP program. During the audit we gathered information, examined documents, and compiled information on funding related issues impacting the CHIP program. In addition, we gathered information regarding current studies being conducted by other government and private groups examining the issue of access to health care and health insurance. Some of this work and corresponding proposals impact Montana's CHIP program. This chapter presents information related to funding CHIP operations and program issues.

Funding CHIP Operations

We gathered information to answer the following funding-related questions:

- How does the funding mechanism work for allocating federal CHIP funds to states and is Montana currently leveraging federal matching grants to the greatest extent possible?
- How have funding reductions adopted by the department and mandated by the Legislature for the 2003 Biennium impacted the CHIP program?

CHIP Federal Matching Grants

Conclusion: The federal funding mechanism for CHIP rewards states that spend their entire federal grant and penalizes states that do not. Portions of funds from states that do not use their full allotment are re-directed to those that do. Montana is not currently using its entire federal allocation because it would take additional state matching funds. As a result, part of the federal funds allocated to Montana were not used and were re-allocated to other states.

Congress appropriated more than $40 billion over a ten-year period in order to fund states' CHIP programs. Annual federal allotments are made available to states each year from the beginning of the program in 1998 through 2007. States have a three-year window to expend, or draw down, their annual federal allotment. Unexpended amounts revert to the federal government and are redistributed to

other states. For example, states had three years to spend federal allotments granted in October 1998. However, many states (including Montana) were not able to spend their entire allotment within the three-year period primarily because of the time involved with starting up operations. As a result, Congress altered the statutory conditions and formula for redistribution of federal CHIP funds for fiscal 1998 and 1999 allotments. States were given two additional years to spend the reallocated portion of their fiscal 1998 allotment and one additional year to spend the reallocated portion of the 1999 allotment.

CHIP is funded from a federal block grant requiring a state match. For the 2003 Biennium, Montana's CHIP state matching rate is approximately 19 percent. Each state's federal matching rate and specific allotment is announced in September. The following table shows federal CHIP grant amounts for fiscal years 1998 through 2003 and the portions of those allotments that have been used by DPHHS through fiscal year end 2003.

Table 11

Allocation and Use of Federal CHIP Grants
Fiscal Years 1998 through 2003

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	1998	**1999**	**2000**	**2001**	**2002**	**2003**
Total Federal Grant Available	$11,740,395	$16,110,846	$14,118,579	$15,169,315	$10,932,695	$11,326,534
Spending Deadline	Sept. 30, 2000	Sept. 30, 2001	Sept. 30, 2002	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2005
Federal Grant Expenditures by State Fiscal Year						
1998	$1,174,040					
1999	$1,694,391					
2000	$2,018,928	$4,156,716				
2001		$9,006,219				
2002		$692,786	$9,916,626			
2003*			$3,305,542	$9,491,728		
Total Federal Grant Expenditures	$4,887,359	$13,855,721	$13,222,168	$9,491,728	$0	$0
Unspent Federal Grant	$6,853,036	$2,255,125	$896,411	$5,677,587	$10,932,695	$11,326,534
Re-allocated to Montana	$4,425,898	$945,457	$0			
Permanently Reverted	$2,427,138	$1,309,668	$896,411			

Footnote: * Department expenditures against the federal grant for fiscal year 2003 are estimated.

Source: Compiled by the Legislative Audit Division and Legislative Fiscal Division from DPHHS records and the Federal Register.

The above table illustrates current spending is allocated against prior year federal grants. For example, in fiscal year 2002, Montana was still drawing down federal allotments from 1999 and 2000. The table also illustrates the state has not used the entire grants allocated by the federal government. The state reverted unspent federal CHIP grants from 1998, 1999, and 2000. Portions of 1998 and 1999 reverted allocations were re-allocated to the state; however, over $4.6 million was permanently reverted.

The current pattern of not using all federal funds is resulting in an accumulation of unspent federal matching funds. When the Legislature convenes in 2003, federal grants for 2001, 2002, and

2003 will be available to the state. For this three-year grant period, over $27.9 million in federal CHIP grants will be available for use during the 2005 biennium. Estimates show it would take $6.5 million of state funding to fully utilize the federal funds available to Montana from 2001, 2002, and 2003 grants. In addition, federal grants for 2004 and 2005 will be available to the state beginning October 2003 and October 2004 respectively. The amount of these federal grants is unknown at this time.

Montana explored ways of using additional federal grant allotments. As a result, the department was able to expand mental health service coverage to a portion of children eligible for both CHIP and Mental Health Services Plan (MHSP). CHIP enrolled children who are diagnosed as severely emotionally disturbed (SED) can receive additional mental health benefits (above those currently offered by CHIP benefits package) that are funded in part through federal CHIP allocations. Other areas considered included expanding the CHIP program to cover children who are developmentally disabled and increasing the income limits for CHIP eligibility from 150 percent of federal poverty level to 200 percent.

Expenditure and Funding Reductions

Conclusion: Reduced appropriation and funding levels for the 2003 biennium impact the CHIP program in a number of ways. The most significant change is fewer children are enrolled in the program. In addition, reduced state expenditures will result in additional federal matching grants being reverted. Other changes impacting CHIP include:

- ***Additional mental health services available to CHIP enrolled children were eliminated, and***
- ***Information outreach efforts were scaled back.***

DPHHS operations have been significantly impacted by current state budget reductions. The agency, administration, and legislature have taken action to reduce appropriation and spending levels for DPHHS during the 2003 biennium. The three key actions taken were:

- Special session action to reduce General Fund appropriation levels.
- Executive branch implementation of statutorily authorized reduction in spending.
- DPHHS action to avoid a supplemental appropriation for operations.

DPHHS actions taken to control spending and avoid a supplemental appropriation had a significant impact on CHIP. According to department management, General Fund allocations were reduced by approximately $220,000 in each year of the current biennium. Since CHIP utilizes state and federal fund matches, General Fund reductions also result in decreased use of federal CHIP matching funds. Using the current 19 percent state match to 81 percent federal match, we estimate the corresponding reduction in the federal grant allocation will be approximately $937,900 for each fiscal year. The net result of the combined state and federal matching grants is a reduction in spending of almost $1.2 million in each fiscal year of the current biennium.

Steps taken by the department to implement the reduction in funding included reducing the maximum number of children that can be enrolled in the insurance program from 9,700 to 9,350. Lower enrollment numbers were achieved through attrition. In addition, effective July 1, 2002, the department eliminated mental health services available to children enrolled in CHIP through the Mental Health Services Plan (MHSP). Children enrolled in CHIP will continue to receive mental health benefits up to the benefit maximums allowed under CHIP. Services beyond those limits will no longer be available via MHSP. Beginning in fiscal year 2002, the department scaled back its outreach program and did not renew outreach contracts. Due to the limits placed on the number of children DPHHS is able to enroll in the program, and the existence of a waiting list, management believed it unfair to advertise the program and generate applications.

Chapter IV – Areas for Legislative Consideration

Proposals Which Could Impact CHIP Operations

Summary: ***The Interim Subcommittee on Health Care and Health Insurance (SJR 22) is not offering any proposals that directly impact CHIP. Three other groups, the State Commissioner of Insurance, Montana Comprehensive Health Association, and a citizen's initiative group, are offering proposals to expand CHIP eligibility and secure additional state funds.***

Montana has one of the highest rates of uninsured adults and children in the nation - there are ten states with higher rates. According to data released by the U.S. Census Bureau, 15.2 percent of all Montana residents were without insurance for a full year in either 2000 or 2001. There are a number of groups studying the issue of the state's uninsured including the Interim Subcommittee on Health Care and Health Insurance (SJR 22). One of the committee's goals was to identify options to reduce the number of uninsured, and early options included possible expansion of CHIP. Initially when the committee began studying the issue, Montana had a budget surplus. However, the state's financial situation has changed and state government is faced with a large budget deficit. As a result, the SJR 22 Subcommittee scaled back its efforts and is not offering any proposals that directly impact the CHIP program. The subcommittee is however urging the administration to expand coverage of the CHIP program and at a minimum, maintain current levels.

Three other groups examining the issue of the high number of uninsured individuals in Montana have developed proposals that would affect the CHIP program if implemented. The State Commissioner of Insurance plans to ask the 2003 Legislature to expand insurance coverage in the state including a proposal to expand the CHIP program to cover additional children. Two other groups, the Montana Comprehensive Health Association (MCHA) and a citizen's initiative group, are actively pursuing securing additional state funds for CHIP. MCHA is conducting a funding study mandated during the 2001 Legislative Session. One of the recommendations of the study is to secure a portion of tobacco settlement dollars for MCHA and CHIP. There is also a citizen's initiative that qualified for the November 2002 ballot, which requires

among other things, allocating a portion of proceeds from Tobacco Settlement Funds to expanding access to health insurance programs. It contains specific reference to allocating funds to CHIP. If passed, it would re-direct a portion of the annual tobacco settlement funds from the General Fund to a state special revenue fund.

Department Response

DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES

JUDY MARTZ
GOVERNOR

GAIL GRAY, Ed.D.
DIRECTOR

STATE OF MONTANA

November 4, 2002

Mr. Scott A. Seacat
Legislative Auditor
Office of the Legislative Auditor
State Capitol, Room 160
Helena, Montana 59620-1705

Dear Mr. Seacat:

I have reviewed the final report on the legislative performance audit of the Children's Health Insurance Plan (CHIP). The Department of Public Health and Human Services concurs with the recommendations of the audit report as noted below.

Recommendation #1

We recommend the Department of Public Health and Human Services:

- **A. Expand the policy regarding calculating annual income to include guidelines for determining an average income.**
- **B. Provide for periodic, on-going training of staff that focuses on estimating annual income of applicants.**
- **C. Implement a quality control system that includes periodic supervisory review of a sample of applications processed by staff.**
- **D. Make the notes section of the TESS database a compulsory field for documenting eligibility decisions.**

Concur.

The Department implemented items A, B, and C immediately after the auditors discussed their findings with program managers. Because item D would necessitate an enhancement to the TESS database, the field is not compulsory at this time, but policy was amended to require that income calculations for each CHIP application be explained in the notes section. By April 2003, the TESS database will be redesigned with features to help make the determination process more clear.

Recommendation #2

We recommend the Department of Public Health and Human Services:

- **A. Expand department policy relating to the CHIP waiting list to include specific guidance for the override function.**
- **B. Develop a process to document any waiting list overrides performed by department management.**

Concur.

The Department implemented this recommendation immediately after the auditors discussed their findings with program managers.

Recommendation #3

The Department of Public Health and Human Services:

- **A. Revise the universal application so it is compatible with a web-based format and post this form on its website.**
- **B. Notify local Offices of Public Assistance to discontinue use of the CHIP-only application.**

Concur.

The Department implemented item B immediately after the auditors discussed their findings with program managers. Regarding item A, the Department has begun the revision process for the universal application and will design an application that is compatible with a web-based format. We anticipate this project will be completed by October 2003.

The Department appreciates these recommendations from the Legislative Audit Division, and appreciates the thorough and concise audit report. We know these recommendations and our responses to them will help the Children's Health Insurance Plan remain an efficient and effective program to improve the health of children in Montana.

Sincerely,

Gail Gray
Director

cc: John Chappuis
Maggie Bullock
Mick Robinson
Marie Matthews
Mary Noel